

Message Text

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 8226
INFO AMCONSUL RIO DE JANEIRO
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UNCLAS SECTION 1 OF 2 BRASILIA 5410

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SUBJECT: ECONOMIC INDICATORS MAY/JUNE

REF: BRASILIA 5931

1. SUMMARY. JUNE INFLATION STATISTICS REGISTERED THE HIGHEST SINGLE MONTH INCREASE THIS YEAR (3.6 PERCENT); IT WILL BE DIFFICULT TO HOLD PRICE INCREASES THIS YEAR TO LEVELS LOWER THAN 1977. INDUSTRIAL GROWTH THROUGH THE FIRST HALF REACHED 5.7 PERCENT. LEADING SECTORS INCLUDE AUTOMOBILES, CHEMICALS AND TEXTILES. REIS VELLOSO, PLANNING MINISTER, PREDICTS OVERALL GROWTH RATE FOR 78 AT AN OPTIMISTIC 5 PERCENT. CUMULATIVE EXTERNAL TRADE DEFICIT THROUGH MAY REACHED \$370 MILLION PRIMARILY DUE TO SHARP DROP IN COFFEE RECEIPTS. BRAZIL CONTINUES TO BORROW ABROAD ON MORE FAVORABLE TERMS WITH LOANS THROUGH MAY AT ABOUT \$2.8 BILLION. END SUMMARY.

2. ECONOMIC GROWTH. REIS VELLOSO, THE BRAZILIAN PLANNING MINISTER, ANNOUNCED THAT INDUSTRIAL PRODUCTION FOR THE FIRST FIVE MONTHS OF 1978 WAS 5.7 PERCENT. OVER THE PAST 12 MONTHS THE RATE
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WAS 3 PERCENT. VELLOSO CONTINUED TO DEMONSTRATE OPTIMISM OVER THE 1978 OUTLOOK, PREDICTING THAT AN INCREASE OF OVER 6 PERCENT IN INDUSTRIAL PRODUCTION WILL COMPENSATE FOR AN ESTIMATED 2 PERCENT DECLINE IN AGRICULTURE AND MAINTAIN AN OVERALL ECONOMIC GROWTH OF AROUND 5 PERCENT. CONGEN SAO PAULO REPORTS THAT THERE

ARE INDICATIONS THAT INDUSTRIAL EXPANSION SLOWED AT THE END OF THE SECOND QUARTER AND THAT PROSPECTS ARE FOR SOMEWHAT SLOWER GROWTH THROUGH THE END OF THE YEAR.

3. IN INDIVIDUAL INDUSTRIAL SECTORS, JANUARY-APRIL GROWTH IN TRANSPORTATION EQUIPMENT WAS 10 PERCENT, CHEMICALS 9 PERCENT, TEXTILES 7 PERCENT, ELECTRICAL MATERIAL 6 PERCENT, MINING 4.7 PERCENT, MECHANICAL EQUIPMENT 1 PERCENT. AUTOMOBILES SHOW A STRONG RECOVERY OVER THE FIRST HALF, WITH PRODUCTION UP BY 13.2 PERCENT IN PRODUCTION AND 15.1 PERCENT IN SALES. FIAT AND GENERAL MOTORS, AMONG THE MAJOR CAR MANUFACTURERS, SHOWD THE LARGEST SALES INCREASES, 69.3 PERCENT AND 32.0 PERCENT RESPECTIVELY. VOLKSWAGEN, BY FAR THE LARGEST AUTOMOBILE MANUFACTURER, SHOWED AN INCREASE OF 6.3 PERCENT AND FORD 16.6 PERCENT. THE AILING CHRYSLER CORPORATION SHOWED A DECLINE OF 23.4 PERCENT. CONSTRUCTION HAS BEEN SLUGGISH WITH BUILDING PERMITS IN SAO PAULO DOWN APPROXIMATELY 39.3 PERCENT THROUGH MAY. ENERGY CONSUMPTION IN RIO AND SAO PAULO INCREASED BY 6.7 PERCENT IN MAY AND SHOWED AN 8.2 PERCENT INCREASE THE FIRST FIVE MONTHS OF THE YEAR.

4. PRICES AND INFLATION. DURING THE MONTH WHEN
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PRICE INCREASES BEGAN TO DECELERATE IN 1977--JUNE--
PRICE INDICES REGISTERED THE HIGHEST RATE OF GROWTH IN 1978. THE WHOLESALE PRICE INCREASE FOR JUNE WAS 3.6 PERCENT COMPARED TO 1.6 PERCENT IN JUNE OF LAST YEAR, THE RIO DE JANEIRO COST-OF-LIVING INDEX WAS 4.1 PERCENT COMPARED TO 2.6 PERCENT LAST YEAR, AND THE GENERAL PRICE INDEX 3.6 PERCENT COMPARED TO 2.0 PERCENT. (MAY 1978 INCREASES WERE 3.6 PERCENT, 3.2 PERCENT AND 3.2 PERCENT FOR THE RESPECTIVE INDICES.) THE LARGEST INDIVIDUAL INCREASES WERE FOOD PRODUCTS (4.8 PERCENT IN RIO) WITH RICE, BEANS, CORN AND SOYBEAN MEAL RESPONSIBLE FOR A LARGE PART OF THE INCREASE IN THE FOOD INDEX. DESPITE THE HIGHER LEVELS OF PRICE INCREASES IN JUNE, CUMULATIVE INCREASES THROUGH THE FIRST HALF OF 78 WERE SOMEWHAT LOWER THAN LAST YEAR, WITH THE WHOLESALE PRICE INDEX

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INCREASING BY 22.5 PERCENT IN 78 COMPARED TO 21.1 PERCENT IN 77, THE RIO COST-OF-LIVING INDEX INCREASING 19.5 PERCENT COMPARED TO 24.0 PERCENT LAST YEAR, AND THE GENERAL PRICE INDEX INCREASING BY 21.2 PERCENT COMPARED TO 22.5 PERCENT. CUMULATIVE INCREASES OVER THE PAST 12 MONTHS WERE 37.1 PERCENT FOR THE WHOLESALE PRICE INDEX, 38.0 FOR THE RIO COST-OF-LIVING INDEX, AND 37.3 PERCENT FOR THE GENERAL PRICE INDEX.

5. IN ANNOUNCING THE JUNE FIGURES, FINANCE MINISTER SIMONSEN ADMITTED THAT IT WILL BE DIFFICULT TO CONTAIN INFLATION AT LEVELS LOWER THAN THOSE REGISTERED IN 1977 (AN OVERALL RATE OF APPROXIMATELY 39 PERCENT). OVER THE REST OF THE YEAR, SIMONSEN FORESEES AN AVERAGE MONTHLY INFLATION RATE OF 2 PERCENT DURING THE THIRD QUARTER, COMPARED TO 1.7 PERCENT AVERAGE IN LAST YEAR'S THIRD QUARTER, AND IN THE FOURTH QUARTER AN IMPROVEMENT OVER LAST YEAR'S PERFORMANCE OF 2.5 PERCENT.

6. TRADE BALANCE. THE MAY BALANCE OF TRADE SHOWED
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A \$32 MILLION TRADE DEFICIT WITH MAY EXPORTS AT \$1.050 BILLION AND MAY IMPORTS AT 1.082 BILLION. THE MAY IMPORT FIGURE REPRESENTS AN \$82 MILLION INCREASE OVER APRIL AND THE EXPORT FIGURE A \$38 MILLION INCREASE OVER THE PREVIOUS MONTH. THE

MAY DEFICIT BRINGS THE CUMULATIVE TRADE DEFICIT TO \$370.9 MILLION THUS FAR IN 1978. 1978 FIGURES, THROUGH MAY, SHOW EXPORTS AT \$4.74 BILLION, COMPARED TO \$4.98 BILLION IN THE SAME PERIOD IN 1977, A DECLINE OF 4.8 PERCENT. IMPORTS WERE \$5.11 COMPARED TO \$4.93 IN 1977, AN INCREASE OF 3.7 PERCENT.

7. MOST OF THE DECLINE IN EXPORTS THUS FAR THIS YEAR CAN BE ATTRIBUTED TO REDUCED COFFEE RECEIPTS IN COMPARISON TO THE FIRST HALF 77 BOOM. COFFEE RECEIPTS FOR THE FIRST HALF OF 1978 REACHED \$1.1 BILLION, DOWN NEARLY HALF FROM THE RECORD \$2.1 BILLION EARNED THE FIRST HALF OF 1977. MANUFACTURED PRODUCTS CONTINUE TO SHOW RAPID GROWTH (UP 34 PERCENT JAN-MAY 1978) DESPITE THE POOR SHOWING BY SOLUBLE COFFEE (DOWN 41.5 PERCENT THE FIRST FIVE MONTHS). WOLKSWAGEN OF BRASIL PERFORMED PARTICULARLY WELL IN EXPORT MARKETS, WITH SALES IN THE FIRST FIVE MONTHS REACHING \$77.3 MILLION, AN INCREASE OF 39.2 PERCENT. OVERALL OUTOMOBILE EXPOERTS ROSE 42 PERCENT.

8. ON THE IMPORT SIDE, THE IMPRATION OF OIL FOR THE FIRST FIVE MONTHS OF 1978 SHOWED AN INCREASE OF 5.2 PERCENT OVER 1977, REACHING A TOTAL OF \$1.5 BILLION. OIL IMPORTS WERE OVER \$3.5 BILLION IN 1977 AND COULD REACH \$4 BILLION THIS YEAR. RAW MATERIAL IMPORTS WERE UP 3.5 PERCENT THROUGH MAY, PRIMARILY DUE TO IMPOORTS OF WHEAT AND COAL. CAPITAL UNCLASSIFIED

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GOOD IMPORTS FELL 15.3 PERCENT IN VOLUME AND 3.4 PERCENT IN VALUE COMPARED WITH THE FIRST FIVE MONTHS IN 1977.

9 FOREIGN BORROWING. BRAZIL CONTINUES TO ATTRACT FAVORABLE CONDITIONS ON ITS FOREIGN BORROWING. TELEBRAS (BACKED BY A FEDERAL GUARANTEE) OBTAINED TWO EURODOLLAR LOANS FROM A CONSORTIUM LEAD BY CHEMICAL BANK TALLING \$180 MILLION. ONE WAS FOR \$90 MILLION FOR A PERIOD OF TEN YEARS AT 1.25 PERCENT ABOVE THE LONDON INTER-BANK RATE (LIBOR) AND ANOTHER (AGAIN FOR 90 MILLION) FOR TWELVE YEARS WITH A SPREAD OF 1.375 PERCENT ABOVE LIBOR.

10. UNOFFICIAL DATA PUT TOTAL FOREIGN BORROWING OVER THE FIRST FIVE MONTHS OF 1978 BY PUBLIC SECTOR CORPORATIONS AT \$2 BILLION. OVER THE SAME PERIOD RESOLUTION 63 LOANS TOTALLED \$832 MILLION.

11. MONEY SUPPLY. MONETRARY GROWTH (M1) THROUGH

JUNE 20TH IS REPORTED TO BE 6.9 PERCENT, APPROXIMATELY
.9 PERCENTAGE POINTS ABOVE THE OFFICIAL TARGET.
THE UNEXPECTEDLY LARGE INFLOWS OF FOREIGN LOANS
THUS FAR THIS YEAR HAVE BEEN LARGELY RESPONSIBLE
FOR THE GROWTH IN EXCESS OF THE TARGET AND LED
THE GOB TO FREEZE THE CRUZEIRO COUNTERPART OF THESE
LOANS IN LATE JUNE (SEE REFTEL).
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